

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF GRAYSON)	
RURAL ELECTRIC COOPERATIVE)	
CORPORATION FOR AUTHORIZATION TO)	
BORROW \$9,800,000 FROM THE NATIONAL)	CASE NO.
RURAL UTILITIES COOPERATIVE FINANCE)	2016-00327
CORPORATION, EXECUTE THE NECESSARY)	
NOTE, AND PREPAY RURAL UTILITY SERVICE)	
NOTES OF THE SAME AMOUNT)	

ORDER

On October 12, 2016, Grayson Rural Electric Cooperative Corporation (“Grayson”) filed an application seeking Commission authority to execute a note to the National Rural Electric Cooperative Finance Corporation (“CFC”) in an amount up to \$9,800,000.¹ On October 25, 2016, we issued Commission Staff’s First Request for Information (“Staff’s First Request”) to Grayson to clarify certain issues in this case. Grayson filed its responses to Staff’s discovery requests on November 3, 2016. There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

Grayson intends to use the proceeds from the proposed CFC loan to refinance and discharge \$9,480,648 of its outstanding indebtedness to the Rural Utilities Service (“RUS”).² The refinancing of the RUS secured debt is authorized pursuant to 7 CFR

¹ Application, paragraph 7 and Grayson’s response to Staff’s First Request Item 4, the actual amount Grayson seeks to borrow as of November 3, 2016 is \$9,546,025.43.

² Grayson’s response to Staff’s First Request, Item 2.d.

Part 1786.³ The outstanding RUS balance consists of fixed-rate debt with interest rates varying from 0.26 percent to 4.95 percent.⁴ Grayson proposes to refinance four RUS loans in the aggregate amount of \$9,480,648 with 22 CFC notes in the same amount at fixed interest rates from 2.80 to 3.70 percent.⁵ CFC's offer to refinance the RUS notes expires December 22, 2016.⁶ Grayson requests that a decision be rendered by November 19, 2016, in order for it to close the transaction by December 22, 2016.⁷

Two fixed-rate RUS notes have a lower interest rate than the rate under the refinancing. Grayson advised the Commission that RUS does not allow selected notes to be refinanced, so the entire RUS portfolio to which a note belongs to must be refinanced in order to refinance any of them.⁸ The proposed CFC notes will have a principal repayment tenor of 22 years, with the principal repayment schedule being approximately two years less than the longest maturity date of the RUS notes being refinanced.⁹ Grayson provided a cash flow analysis which indicates that the refinancing would save \$1,550,820 over the life of the proposed loan, resulting in a positive net present value cash flow of \$647,791, including legal fees.¹⁰

The Commission has reviewed the proposed refinancing and finds Grayson's proposal to be reasonable due to the lower effective interest rate and cash flow savings

³ Application Exhibit 4.

⁴ *Id.*, Exhibit 5 and Grayson's response to Staff's First Request, Item 2.d.

⁵ Grayson's response to Staff's First Request, Item 2.d.

⁶ *Id.*, Item 1.a.

⁷ *Id.*, Item 3.

⁸ *Id.*, Item 2.c.

⁹ *Id.*, Item 2.d.

¹⁰ *Id.*, Item 2.a.

Grayson would see over the period of the loan. The Commission commends Grayson for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its member-consumers.

The final amounts of the RUS payoff, the legal fees, and the new CFC loan will not be known until the refinancing transaction is finalized. Therefore, Grayson should provide the Commission with the exact amount of the new CFC loan within ten days of finalizing the transaction. In addition, Grayson should provide an updated version of the response to Staff's First Request, Item 2.a., reflecting the cash flow analysis of the new CFC loan.

The Commission, after consideration of the evidence of record and being sufficiently advised, finds that:

1. The proposed loan from CFC is for lawful objects within the corporate purposes of Grayson, is necessary and appropriate for and consistent with the proper performance by the utility of its service to the public, will not impair its ability to perform that service, is reasonable, necessary, and appropriate for such purposes, and should be approved.

2. Grayson should execute its note as security for the proposed loan in the manner described in its application.

3. Within ten days of finalizing the refinancing transaction, Grayson should notify the Commission in writing of the exact amount of the new CFC loan. Grayson should include with the notice an updated version of Staff's First Request, Item 2.a., reflecting the savings based on the actual amount of the new CFC loan and legal fees.

4. Within ten days of the execution of the new CFC loan documents, Grayson should file with the Commission one copy in paper medium and an electronic version of the loan documents.

5. The proceeds from the proposed loan should be used only for the lawful purposes set out in Grayson's application.

6. The terms and conditions of the new CFC loan should be consistent with the CFC refinancing program as described in Grayson's application.

IT IS THEREFORE ORDERED that:

1. Grayson is authorized to borrow from CFC up to \$9,480,648 but no more than the total amount needed to pay off the RUS notes proposed to be refinanced as identified in the application. The loan maturity date and interest rate shall be in accordance with the CFC refinancing program as described in Grayson's application.

2. Grayson shall execute the CFC loan documents as authorized herein.

3. Grayson shall comply with all matters set out in finding paragraphs 3 through 6 as if they were individually so ordered.

4. Any documents filed in the future pursuant to finding paragraphs 3 and 4 shall reference this case number and shall be retained in the utility's general correspondence file.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

By the Commission

ENTERED
NOV 17 2016
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


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Case No. 2016-00327

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